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Dear John

Association of Accounting Technicians response to OTS Progress report and call for evidence “Simplification of the Corporation Tax Computation”

The Association of Accounting Technicians (AAT) is pleased to respond to the OTS Progress report and call for evidence “Simplification of the Corporation Tax Computation”, published November 2016 (the report).

AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving sound and effective administration of taxes.

AAT has added comment in order to add value or highlight aspects that need to be considered further.

AAT has focussed on the operational elements of the proposals and has provided opinion on the practicalities of implementing the measures outlined.

AAT's 4,250 licensed accountants provide their services to companies of all sizes, with most of their corporate service provision focused on incorporated businesses with fewer than 10 employees. This fact aligns itself neatly with a recently published OTS review¹ which, in its foreword, stated that “These ‘micro’ businesses now number some 4.1 million in the UK, over 1.3 million of which operate through a company structure. While they are not large employers they are the largest group of incorporated businesses; a company which is large today was small yesterday and all entrepreneurs start small”.

Recognising the above AAT's response concentrates on the opportunities for simplification of the corporation tax computation from a micro-entities perspective.

It is pleasing to note that the OTS considers “*A key question for this review has been the relevance of the way the computation works for a modern company*”.

In this technology-dependent-age, for many who provide accountancy and taxation services to the micro/nano end of the corporate-spectrum, the calculation of corporation tax liability and the completion of the associated corporation tax return (CT600) and tax computation is merely a bi-product of the production of the statutory accounts. In reality the main administration burden borne by micro-companies is in respect of the production of year-end statutory accounts.

Implemented correctly, the Government's drive to implement Making Tax Digital provides opportunities for simplification. For example, if companies are required to file quarterly reports of their trading activities without too much additional work there should be scope to absolve them of the requirement to file year-end statutory accounts and the associated administratively cumbersome requirement to tag the account using iXBRL².

The comments made under 1.2 and 1.3, of the report, that “...*there should be as few adjustments as possible within the CT computation and these should be in accordance with a clear and well understood policy*” are undoubtedly true. However, for many micro-businesses the number of adjustments that they are

¹ [OTS – small company taxation review, published March 2016](#)

² <https://www.gov.uk/government/publications/company-tax-returns-format-for-accounts-forming-part-of-an-online-return>

required to make to the accounting profit in order to arrive at the taxable profit are often minimal.

AAT agrees that the six “*main areas where simplification could be considered*” listed under 1.8 (the report) offer opportunities to reduce the difference between accounting and tax profit.

The benefits of reducing the number of adjustments required a simplification of the tax compliance process for all, which should lead to a reduction in year-end costs for the taxpayer and greater certainty of a company’s tax liability at an earlier stage.

One main challenge which needs to be considered is whether there is a political appetite for changes. For example, as acknowledged within the report, successive Chancellors have made adjustments to the rates of relief for capital allowances, often without clear justification from a business perspective.

With the imminent move to Making Tax Digital, the closer alignment of accounting and tax profits offers a tangible reward. Particularly if companies were not required to file iXBRL tagged statutory accounts with HMRC in addition to filing quarterly in-year-returns.

AAT supports and shares the OTS “*ambition*” that, CT adjustments need to be relevant, clear, simple, and add material value either to the business. That said, for many micro-company owner / operators little in the way of adjustment to accounting profits are required to arrive at the taxable profits.

Those adjustments that are required are often seen as being appropriate or politically expedient. For example, it is unlikely that it would be socially acceptable for the adjustments in respect of entertaining or corporate hospitality or fines and other penalties to be discontinued and politicians are unlikely to avoid tweaking capital allowances rates from time to time.

While the possibility of a move to a different style of an allowance, with a more immediate link between the decision to invest and the associated relief, for example in the form of a grant might seem attractive, it is hard to see how the benefits achieved on the one hand are not outweighed by a corresponding increase in administration on the other. Take for instance R & D tax credits, where what was meant to be a relatively simple process has spawned an industry which specialises in making the tax credit claim on behalf of accountants and their client companies.

AAT is pleased to acknowledge the Government’s recent proposal to reform corporation tax loss relief for post-2017 losses as it will take a significant step towards pooling losses and it offers the possibility that much of the old scheduler approach to calculating could be dispensed with. If this is to be the case it would be a significant simplification that would have knock on benefits for corporate reporting under MTD.

AAT is encouraged to read under 2.32 (the report) that the OTS “*...have heard concerns about the extent of the administrative burden that quarterly updates could create*”. It is AAT’s view that in addition to the noted challenge there is the opportunity to dispense with the current corporation tax, iXBRL tagging and even the possibility of introducing the claiming of flat rate allowances all of which, if taken up, could be quick wins along the road to simplification.

Indeed, the introduction of flat rate allowances would go some way towards helping reducing the level of information companies are required to retain in order to support all entries made in the tax computation.

In a similar vein, AAT would support the introduction of a concept of materiality, the current absence of which results in the imposition of an overly burdensome requirement on companies to retain all supporting documentation no matter how minor and inconsequential.

In welcoming any move to exempt small companies from the complexities of larger company reporting, AAT acknowledges OTS’s observations “*Furthermore, any simplifications for larger, complex companies would also, though less frequently, be of benefit to smaller companies*” (2.44, the report).

In view of the fact that even after the implementation of MTD companies will still be required to file statutory accounts, which are compliant with prevailing accounting standards with Companies House, AAT does not support a move to accounting for corporation tax on a cash basis. The adoption of such an approach would only lead to the introduction of another level of complexity.

As an alternative AAT would support a move to enable micro-entities to calculate their taxable profit in accordance with FRS 105 (the Financial Reporting Standard Applicable to Micro-entities Regime).

About AAT

AAT is a professional accountancy body with approximately 50,000 full and fellow members and 80,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,250 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

If you have any queries or require any further information, please do not hesitate to contact our Technical Consultation Manager, Aleem Islan, at consultation@aat.org.uk

Yours sincerely



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